philly.com

How entitlements can perpetuate youth unemployment

By Jagadeesh Gokhale | Friday, May 18, 2012

Job seekers wait in line at a job fair last month in Portland, Ore. Are policies that transfer wealth to older Americans exacerbating unemployment among the young? Associated Press

Persistently high post recession unemployment is ravaging the economic prospects of younger workers, delaying their skill development and eroding their work ethic. Some pundits have argued for more government spending on job training and infrastructure to speed the recovery of the economy and labor market.

But blaming the recession alone is misguided. We must also address longer-term trends in education, labor, and capital, largely due to government policies. Social Security and Medicare, for example, are shifting wealth away from younger generations, discouraging saving and therefore education and skill acquisition.

That's not to say that the recession did not play a role. The collapse of the housing and banking sectors and ensuing credit squeeze engulfed the rest of the economy, making a quick recovery difficult, if not impossible. Three years after the recession officially ended, financial institutions and lending remain impaired, constraining firms' ability to expand and hire.

Apart from the recession, however, long-term labor shifts are hurting employment. Many middle-class jobs have shifted from manufacturing to

services over the past two decades. At the same time, the information-technology revolution has made it harder for lower-skilled workers to find higher-paying jobs. Some who were laid off from such jobs continue to demand higher wages, further delaying the recovery of employment.

A declining education system and low savings rates are also hurting employment among the young. The share of workers with postsecondary education leveled off during the 1990s. Moreover, national savings have declined considerably since the ’70s, leaving less capital available to promote employment growth. Now that the gains of the boom years have vanished, the importance of old-fashioned saving and investment has reemerged.

The labor environment of yesteryear is unlikely to return. Henceforth, better pay will be more closely associated with better skills. Workers will have to innovate on the job and use new technologies. Efficiency will become more important as globalization proceeds, requiring workers to continuously update their skills.

The policy implications are clear: We should give workers incentives to acquire the right skills. But how should such incentives be funded?

One key reason for low national savings rates is the constant transfer of massive wealth from younger savers to older consumers. Under current policy, for example, Social Security will shift $20.5 trillion to older generations, funded by younger and future generations’ payroll taxes. Medicare is expected to transfer even more — $27.8 trillion — even with questionable savings under Obamacare. Research shows that very little of this will flow back to younger generations. And by making retired Americans less dependent on their grown children, these benefits give parents less incentive to promote and fund their children’s education and skill acquisition.

What’s the antidote? Long-term measures to help young people acquire more skills and education without penalizing employers or workers. Two examples would be higher taxes on retirees’ Social Security benefits and higher co-pays for Medicare benefits. The resulting revenue could fund tax credits for adults who acquire new professional qualifications and whose children complete high school and college.

The labor market for young people can be strengthened only by encouraging them to acquire skills. The best incentives would be financed not by further taxing workers or employers, but by reversing policies that reduce young people’s savings and capital. This would boost their ability to invest in their own productivity and, ultimately, make Social Security and Medicare more sustainable.

Jagadeesh Gokhale is a senior fellow at the Cato Institute.